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An Analysis on Cost of Capital with Reference to Unitech Plasto Components Pvt Ltd.

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ABSTRACT FOR COST OF CAPITAL

A cost of capital is a key element for corporate financing and investment decision. The growing relevance of sustainability suggests that marginal decision that improve corporate environmental footprint and risk might be priced by investors, thus reducing the cost of capital for global companies. The objectives of this paper are to survey the literature contributions that have investigated – theoretically and empirically – The relationship between environmental performance and firms cost of capital. The surveyed paper mostly supports the existence of a negative relationship between environmental performance and cost of capital. However, several external factors, including the national institutional and cultural framework, seems to have a considerable effect on this relationship. New avenues of research should investigate in depth those factors, gather evidence from understudied countries and examine the practices that allows corporate and investors to embed sustainability consideration in cost of capital metrics. The quantification of the impact of social and environmental performance on firms cost of capital has becomes a popular research topic.

REFERENCE: Corporate financing, Investment decisions, Environmental risks and performances.

INTRODUCTION FOR COST OF CAPITAL

In order to evaluate investment proposals, different methods have been used in capital budgeting. All those methods, their application, evaluation criteria etc. which depends upon two basic inputs., cash flows emanating from project and the discount rate. The discount rate is actually the cost of capital. The cost of capital is knows as cut off rate, minimum required rate of return, rate of interest, hurdle rate, target rate etc. First in capital budgeting, It is used to find the present value of future cashflow and it is also used in optimization of the financial planning or capital structure of a firm. In this topic, An attempt has been made to measure the cost of capital of each sources of finance so as to find the total cost of capital of a firm. Since cost of capital is a measure of investor perception on what is value relevant, the growing global interest in sustainability suggest that environmental, social and governance (ESG) and corporate social responsibility (CSR) practices might be priced by investors. It helps to raised capital from investors or borrowed money. It includes both the cost of debt and cost of equity where the cost of debt is the interest rate paid on borrowed funds and cost of equity is used to representing the minimum return by the investors to justify their investment for shareholders to particular company. By accurately estimating their cost of capital, companies can make informed decisions about investments, merger and acquisition and other strategic initiatives.

COMPANY PROFILE ABOUT UNITECH PLASTO COMPONENTS PVT LTD

An Unitech Plasto Components Pvt Ltd Company was located at Pillaipakkam in Sriperumbudur under Kanchipuram District of Indian State of Tamil Nadu. In this company, CEO is Jagadeesan. This company was founded in 1995 (Parent Company), 2003(Current Entity). Unitech plasto Company is a manufacturing Company. This company have more departments such as., HR Department, Account Department, Production Department etc. Total number of employees are 500. In majority for manufacturing the products like metal and chemical products for business from last 22 years. Revenue of this company is 100 – 500 Cr. Company Certification is IATF, ISO 9001: 2000, ISO/TS 16949:2009. This company have various branches like Unitech Machines Ltd located in Bengaluru, Karnataka, Unitech Electrical Pvt Ltd Based in Pune, Maharashtra, Unitech Power Transmission Ltd located in Chennai, Tamil Nadu, Unitech Engineering Pvt Ltd based in Mumbai, Maharashtra, Unitech Industries Ltd located in New Delhi. They are manufacturing the car parts such as.,

INTERIOR COMPONENTS – Dashboard trim, Door trim, seat and console components. EXTERIOR COMPONENTS – Bumper, Dashboard, Door panel, Griller mirrors.
UNDER HOOD COMPONENTS – Air intake manifold, Engine mounts and fuel tanks and pump, transmission mount.

INJECTION MOULDING – General moulding, Twin injection.
SPRAY PAINTING - Interior and Exterior. DECORATIVE PARTS – Pad printing, Laser etching.
INTEGRATED ELECTRONICS ASSEMBLY – Commodity assembly, SMT, Electrical vehicles.

INJECTION MOLDING: It is used for producing a plastic component. These parts are used in various industries like aerospace, medical device and consumer goods. They produce a range of parts such as console components, trim components, emblem air intake manifolds and engine. It allows for high volume production consistency and cost effectiveness making for large scale manufacturing.

SPRAY PAINTING: In this company offers the spray painting services as a finishing process for its high precision plastic components for interior and exterior applications. It sprays a uniform layer of paint using a spray gun. The company interior components are used in various industries, including automotive, medical and consumer goods.

LASER ETCHING: It is non- contact process that **uses** a high precision laser beam to remove or alter the surface of the material, creating intricate design, logos, and text. It creates customized marking on plastic components, including serial numbers, barcodes and branding elements. To ensures the high-quality results with excellent precision, accuracy and durability.

PAD PRINTING PARTS: The company offers pad printing services as a value-added solution for its customers. It is a versatile printing process that allows for intricate designs, logos and text onto complex shapes and surfaces. It is used to decorate plastic components for enhancing their aesthetic appeal and functionality.

Pad printing Parts

INRODUCTION FOR COST OF CAPITAL

The cost of capital is the company's cost of using funds provided by creditors and shareholders. A company's cost of capital is the cost of its long-term sources of funds; Debt, Preference, Equity and common equity. Company has to earn sufficient profits to meet the legal obligations of payment of interest and dividend on funds. If the company fails to earn sufficient profit to meet these legal obligations, it cannot be survived.

MEANING FOR COST OF CAPITAL
The cost of capital refers to minimum rate of return a company needs to earn on its investments to satisfy investors and lenders. It's the price a company pays for the funds it uses to finance its operations and investments.
DEFINITION FOR COST OF CAPITAL

SOLOMON EZRA: The cost of capital is the minimum rate of return or cut off rate for capital expenditures.

HALEY and SCHALL: The cost of capital is any discount rate used to value cash streams.

HAMPLON: Cost of capital is the rate of return the firm requires from investment in order to increase the value of the firm in the market rate.

COMPONENTS FOR COST OF CAPITAL

RETURN AT ZERO RISK: This includes the projected rate of return on investment when the project does not any business or financial risk.

PREMIUM FOR BUSINESS RISK: In this capital, the business risk is referring to changes in operating profit on account of changes in sales and also it involves higher risk than the average risk can be financed at a higher rate of return than the normal rate.

PREMIUM FOR FINANCIAL RISK: The cost of capital includes premium for financial risk arising on account of higher debt content in capital structure, requiring higher operating profit to cover periodic payment of interest and repayment of principal amount on maturity.

TYPES FOR COST OF CAPITAL

Cost of capital can broadly be classified into various parts such as.,

HISTORICAL COST: It is useful for projecting future cost which has already been incurred in order to finance a particular project and often used in the reporting of the fixed assets.

FUTURE COST: It is the expected cost of funds for financing a particular project and also applied for taking financial decision. It involves such factors as Market interest rate, Company's risk profile, Economic conditions.

EXPLICIT COST: It is the discount rate that equates the present value of cash inflows that are incremental to taking of finance opportunity with present value of its incremental cash outflows.

IMPLICIT COST: It is also known as opportunity cost or cost of retained earnings. It is a rate of return associated with the best investments opportunity of its shareholders. It helps to calculate only an economic profit.

SPECIFIC COST: It is referring to the cost of each components of capital. It is particularly used for profitability of the project is evaluated in specific sources of funds.

COMPOSITE COST: The composite cost is reefers to combined cost of equity capital, preference capital, debt etc. It is also knowns as weighted average cost of capital or overall cost of capital.

OBJECTIVES FOR COST OF CAPITAL

The main objectives cost of capital are to help business make informed investment decisions, evaluate project profitability, and determine the optimal capital structure, ultimately aiming to maximize shareholder wealth. It serves as a benchmark for assessing whether a project's expected returns are sufficient to justify its financing costs and help in comparing different financing options.

PRIMARY OBJECTIVES:

To analyses the cost value based on the cost of capital

To maintain the current market value which is essential for potential investments. It shows the higher value in cost of debt rather than cost of equity.

SECONDARY OBJECTIVES:

It includes comparing different sources of financing to choose the most cost-effective options. To understand the risk assessment with different funding options and their levels of impacts.

It helps to compare both actual return with expected return to identify the particular area for improvement in the business level.

USAGE FOR COST OF CAPITAL

The cost of capital is a crucial metric used in various financial decisions, including evaluating investment project, determining capital structure and assessing company performance. It helps to pursue a project, acquire assets, or allocate resources. The business can ensure that investment generate sufficient returns to justify the cost of funding, ultimately driving growth and profitability.

NEEDS FOR COST OF CAPITAL

The cost of capital is an essential for evaluating business investment opportunities, determining minimum required returns and companies can make informed decisions about investments, financing and resources allocation, ultimately maximizing shareholder value and driving business growth.

SCOPES FOR COST OF CAPITAL

The scope for cost of capital is used for applies to various aspects of financial management and planning, enabling the business to make informed decisions and optimize resource to forecast future cashflow and determine the viability of investments. To estimates the simulate different scenarios under different conditions.

FORMULA FOR COST OF CAPITAL

COST OF CAPITAL = Weightage of debt * cost of debt + (Weightage of preference share * cost of preference share) + (Weightage of equity * cost of equity)
COST OF DEBT BEFORE TAX = Interest / Net proceeds.
COST OF DEBT AFTER TAX = Interest – Tax saving /Net proceeds**.**
COST OF REDEEMABLE PREFERENCE SHARE CAPITAL = Annual cost / Average value of preference share.
COST OF IRREDEEMABLE PREFERENCE SHARE CAPITAL = Annual preference dividend / Net proceeds.
COST OF EQUITY FOR DIVIDEND YIELD METHOD = Expected dividend per share / Net proceeds per share.
COST OF EQUITY FOR DIVIDEND PRICE PLUS GROWTH METHOD
For new share = Expected dividend per share / Net proceeds per share + growth rate in dividend. **For existing share =** Expected dividend per share / Market price per share + growth rate in dividend **COST OF RETAINED EARNING =** Cost of equity capital (1- tax) (1- brokerage)

WACC = (Market value of equity/ Total market value of firm * Cost of equity) + (Market value of debt / Total market value of firm * cost of debt * (1- tax rate))

LITERATURE FOR COST OF CAPITAL

ALAN. H, (2022), An empirical analysis for cost of capital develops a theoretical model of firm. It shows the results

strongly supported the hypothesis that firm perceive a higher cost of capital when issuing new share and that the cost of capital varies significantly across firms having different estimated tax clienteles as theory would predict.

BHATTACHARYA. N, (2017), It is essential part for human life and also firm performance to run the business in smooth level and mainly concerned with timely procurement of adequate the various sources. It is used for companies accountable for their financial position to achieve a common goal. They need more information's or details by collecting from right investors.

CHENG. M, (2022), The cost of capital is an increasingly interconnected as stakeholders demand more comprehensive disclosure. It influences market value and investors decisions and ensures the impacts for long term organizational success and reputation.

DEFOND. MI, (2024), The cost of capital is a fundamental concept in finance that represents the expected return required by investors for the risk of investing in a company. It is a critical input in capital budgeting decisions. It helps companies evaluate investment opportunities and to generate sufficient returns to justify the cost of funding and also companies can make their capital structure and maximize shareholder value.

FENG. M, (2018), The cost of capital is a fundamental concept in corporate finance minimum return by investors to justify an investment in a company. He finds that a company cost of capital is affected by its debt to equity ratio. In this literature, he discusses the different methods for cost of capital, including the capital asset pricing model (CAPM) and weighted average cost of capital (WACC).

RESEARCH METHODOLOGY

The research methodology for estimating the cost of capital typically involves a combination of theoretical and empirical approaches. The study begins with a comprehensive literature review to identify the various methods and models used to estimate the cost of capital, such as the capital asset pricing models (CAPM) and weighted average cost of capital (WACC) approach and the discounted cash flow model (DCF). The next step is collecting and analysing the company's capital structure, risk profile and market performances.

DATA COLLECETION

The data collection is used for gathering and extracting relevant financial data from these two financial statements. It classified into two ways they are.,

PRIMARY DATA: The primary data is referring to an original thing, raw financial data collected directly from the sources such as financial market data related to risk profile, accounting records etc.

SECONDARY DATA: In financial level, the secondary data on cost of capital is refers to existing data collected and published by others such as Research studies, industry reports, financial database and government publications.

TYPES OF TOOLS THAT HAS BEEN USED IN COST OF CAPITAL

WACC: Weighted Average Cost of Capital is financial metric that represents the average cost for a company taking into account the cost of both debt and equity financing and based on the proportion of debt and equity in the company's capital structure and indicates the lower cost of capital which makes its easier for a company to invest in new project and grow its business.

DIVIDEND YIELD METHOD: This method is called as dividend price method. It is calculated on the basis of a required rate of return in terms of future dividend to be paid on equity share for maintain their present market price for cost of new equity share and existing share.

COST OF EQUITY DIVIDEND PLUS GROWTH METHOD: Under this method, the cost of equity is determined on the basis of the expected dividend value plus growth rate which assumed to be equal level for in earning per share and market price per share.

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DATA ANALYSIS FOR COST OF CAPITAL

TABLE SHOWING ABOUT COST OF EQUITY FOR DIVIDEND PRICE PLUS GROWTH METHOD FOR AN EXISTING SHARE IN UNITECH PLASTO COMPONENTS PVT LTD CO. IN 2025 – 2021.

YEAR	EXPECTED DIVIDEND	MARKET PRICE	GROWTH RATE	COST OF EQUITY
2025	2,867	5,103	2,236	22.92%
2024	5,222	7,250	2,028	21.00%
2023	1,010	980	30	3.03%
2022	9,499	111	90	10.76%
2021	11,360	8,000	404	5.46%

INTERPRETATION: In 2025, a company indicates expected dividend is 2,867, market price is 5,103 and growth rate 2,236 then the cost of equity is 23% due to changes of managerial risk and social responsibility. In 2024, a company required the dividend amount is 5,222, market price 7,250 and growth rate is 2,028 then the cost of equity will be 21% due to influenced both dividend expectation and growth rate. In 2023, a company shows the dividend amount is 1,010, market price is 980 and growth rate is 30 then the equity is 3.03% due to lower level of equity by fluctuate the overall rates. In 2022, a company gets dividend amount is 9499, market price is 111 and growth rate is 90 then the equity level will be 10.76% due to changes to high returns and high growth. In 2021, a company suggest the dividend rate is 11,360, market price is 8,000 and growth rate is 404 then the value of cost of equity will be 5.46% due to required moderate return to invest the firm.

THE CHART SHOWING ABOUT COST OF EQUITY FOR DIVIDEND PRICE PLUS GROWTH METHOD FOR AN EXISTING SHARE AT THE YEAR OF 2025 – 2021 BY THE COMPANY OF UNITECH PLASTO COMPONENTS PVT LTD.

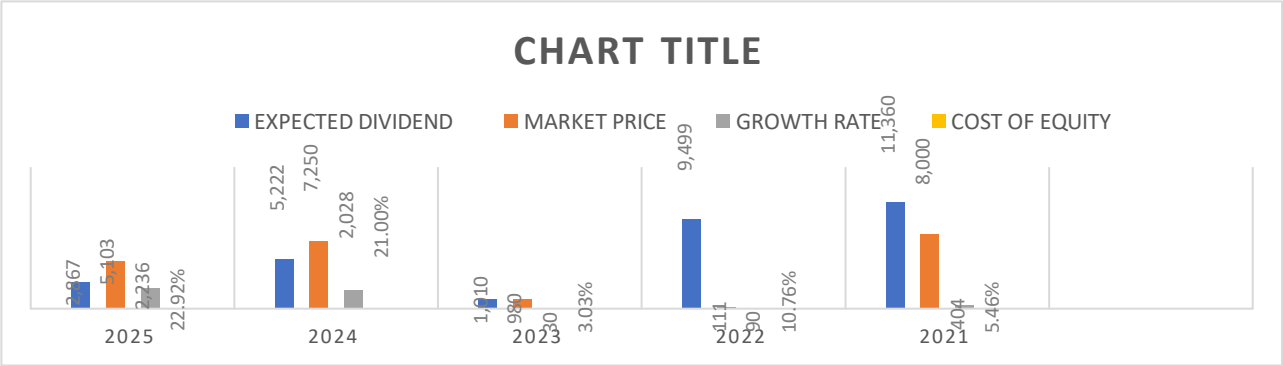


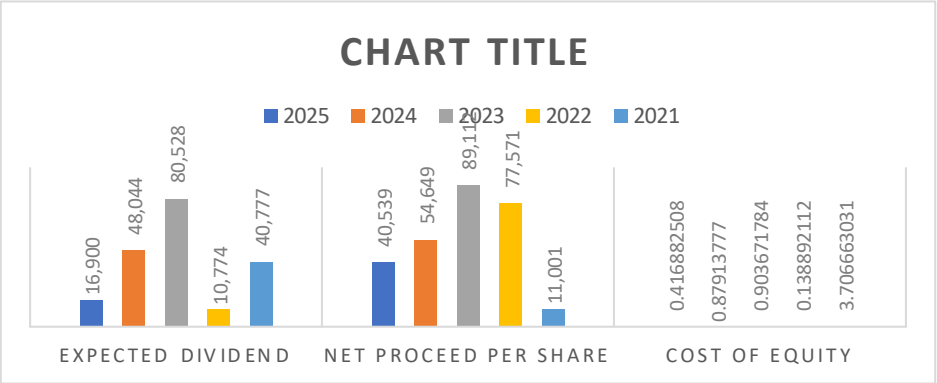
TABLE SHOWING ABOUT DIVIDEND YIELD METHOD IN UNITECH PLASTO COMPONENTS PVT LTD CO. IN 2025 – 2021.

YEAR	EXPECTED DIVIDEND	NET PROCEED PER SHARE	COST OF EQUITY
2025	**16,900**	**40,539**	**41.67%**
2024	**48,044**	**54,649**	**87.99%**
2023	**80,528**	**89,112**	**90.35%**
2022	**10,774**	**77,571**	**13.90%**
2021	**40,777**	**11,001**	**370.87%**

INTERPRETATION: In 2025, a company generates dividend amount is 16,900 and net proceed share is 40,539 then the cost of equity value will be 42% due to changes of financial optimal solution and longer time period. In 2024, a company which influenced the dividend rate is 48,044, net proceed share is 54,649 then it shows the cost of equity is 88% due to maintaining the present market price for the firm. In 2023, a company required the expected dividend rate is 80,528 and net proceed share will be 89,112 by dividing the both rate it shows the equity rate as 90% due to stable changes of financial time period and rate of return for firm performances. In 2022, a company generates the expected

dividend rate is 10,7774 and net proceed share is 77,571 then the rate of equity level will be the 14% due to paid the future dividend based on the terms and conditions of rate of return. In 2021, a company suggest the dividend rate is 40,777 and net proceed share is 11,001 then the rate of equity will be the 371% based on higher rate of return and it gives the higher profitability by comparing to all other years

THE CHART SHOWING ABOUT DIVIDEND YIELD METHOD AT THE YEAR OF 2025 – 2021 BY THE COMPANY OF UNITECH PLASTO COMPONENTS PVT LTD.



FINDING FOR STUDY

WEIGHTED AVERAGE COST OF CAPITAL: It is used to increased as 9.98% in the year of 2021 due to changes of conscious decisions for avoiding the debt and more lack of debt options as well as reduce flexibility.

DIVIDEND PRICE PLUS GROWTH RATE: It gives the finding has a growth rate in dividend was assumed to be equal to growth rate in earning per share and market per share which steadily improved as 22.92% due to economic changes of managerial risk and social responsibilities in 2025.

DIVIDEND YIELD METHOD: This method is suitable only where the firm stable earning and stable dividend policy over a reasonable length of time which suggest the dividend rate is 40,777 and net proceed value is 11,000 then the dividend yield is 37% due to stable changes of financial performances, higher rate of return and profitability in 2021.

CONCLUSION FOR COST OF CAPITAL

Under standing and effectively managing the cost of capital is crucial for companies to make informed financial decisions, structure their capital more effectively and develops a strong long-term financial strategy which helps to maximize a company's assets for current period and future. The company's cost of capital dynamics has shifted significantly due to conscious decisions and market changes such as., Increased weighted average cost of capital to 9.98% in 2021 due to reduced debt options and increased reliance on equity. Dividend growth rate aligned with earning growth reaching 22.92% in 2025 driven by economic changes and emphasis on social responsibility. Dividend yield method suitability depends on stable earnings and dividend policies with a calculated yield of 37% in 2021, indicating strong financial performances and profitability.

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